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VIA EFILING AND HAND DELIVERY

February 14, 2008

Charles L.A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Drive
Columbia, SC 29210

Re: Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of Piedmont Natural Gas Company, Incorporated

Dear Mr. Terreni,

Enclosed please find the report of the Office of Regulatory Staff ("ORS") which is forwarded to the Commission in accordance with the Commission's directive to the parties at the hearing in this case on November 29, 2007.

As indicated in the report, ORS has concluded that the balance in Account #253.04 of (\$1,660,409) accurately reflects the Company's under-collection at March 31, 2007. Additionally, ORS verified the records supporting inventory balances as of March 31, 2007 and has included the inventory schedules, as requested by the Commission.

Should you have any questions or require any additional information in regards to this case, please contact the parties at your convenience.

Yours Truly,


Jeffrey M. Nelson

cc: James H. Jeffries IV, Esquire

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF**FINAL REPORT****AS OF FEBRUARY 14, 2008****IN RE: PIEDMONT NATURAL GAS COMPANY, INC.****PURCHASE GAS ADJUSTMENT ("PGA")****DOCKET NO. 2007-4-G**

In accordance with the Settlement Agreement filed by and among the Office of Regulatory Staff of South Carolina ("ORS") and Piedmont Natural Gas Company, Inc. ("Piedmont" or "Company"), on November 9, 2007 in Docket No. 2007-4-G ("Agreement"), and in order to address unresolved accounting issues related to Piedmont's commodity true-up and inventory levels and to permit a final accounting of Piedmont's deferred account (Acct. No. 253.04), Piedmont filed, beginning on January 7, 2008, revised and updated data to ORS for its examination.

Further, in accordance with the Agreement, ORS examined the revised and updated data provided by Piedmont. The data was subjected to tests of adequacy of supporting documentation, mathematical accuracy, verification, when appropriate, with unrelated third parties, conformance with prior orders and rules and regulations issued by the Public Service Commission of South Carolina ("PSC") and generally accepted regulatory accounting principles.

In order to summarize the results of the procedures performed, ORS has prepared three exhibits, Exhibit ORS-1, "Account # 253.04 Analysis Summary", Exhibit ORS-2, "Storage Inventory Activity" and Exhibit ORS-3, "Risk Management-Hedging Program". Exhibit ORS-1 addresses changes in the Account # 253.04 Analysis Summary as

originally filed, and presents a final Account # 253.04 Analysis Summary. Exhibit ORS-2 presents information on the Company's underground and LNG inventories, not previously provided to the Commission in this docket. Exhibit ORS-3, is provided for informational purposes only as the data included in Exhibit ORS-3 "Risk Management – Hedging Program" remains as previously filed in witness Sullivan's October 25, 2007 testimony in this docket.

These exhibits, the procedures performed in conjunction with ORS' examination and adjustments recommended by ORS are more fully detailed as follows:

EXHIBIT ORS-1: The Account # 253.04 Analysis Summary, as originally filed, reflected an ending balance under-collection of (\$3,101,815). On Exhibit ORS-1, attached, ORS has recalculated that balance, as a result of various adjustments, as an under-collection of (\$1,660,409). Those changes are detailed as follows:

- (1) A \$1,427,724 decrease in the under-collection for commodity true-up due to adjustments to the dekatherms and dollars used in determining the cost of gas.
- (2) A \$6,213 decrease in the under-collection for demand true-up due to adjustments in LNG inventory liquefaction calculations.
- (3) A \$29,438 increase in the under-collection for unaccounted for due to adjustments to the dekatherms used in calculating the cost of gas.
- (4) A \$36,907 decrease in the under-collection for interest expense due to adjustments to commodity true-up and unaccounted for.

EXHIBIT ORS-2: During the PGA examination, the Company provided ORS detailed inventory calculations of its underground and liquefied natural gas (LNG) supplies at

1 each of its storage facilities. ORS accumulated the various inventory levels in total and
2 included them in Exhibit ORS-2, for Commission consideration.

3 The Company has contracted with six underground storage facilities. Five of these
4 facilities are on the Transco System, including General Storage Service (GSS) and
5 General Storage Service – Dominion (GSS-Dominion) located in Pennsylvania,
6 Washington Storage Service (WSS) located in Louisiana, Eminence Storage Service
7 (ESS) located in Mississippi, and Hattiesburg Storage located in Hattiesburg, Mississippi.

8 The sixth underground facility is owned by Columbia Gas Transmission Company and
9 operated by Columbia Gas Storage, as Firm Storage Service (FSS), with storage facilities
10 in Pennsylvania, Virginia, and West Virginia.

11 Audit Exhibit ORS-2, “Total Underground” details the inventory activities of these
12 underground facilities, in total. The inventory located in the six underground facilities at
13 the beginning of the review period totaled 8,462,437 dekatherms at a total cost of
14 \$66,809,961 or a weighted average cost of \$7.8949 per dekatherm. The net inventory
15 decrease during the period, including injections, withdrawals and other related activities,
16 resulted in an ending inventory balance for these six facilities of 8,183,512 dekatherms at
17 a total cost of \$62,674,195, or a weighted average cost of \$7.6586 per dekatherm. During
18 its examination, ORS obtained verification from the storage facility operators of the
19 volumes stored in each of these facilities at the close of the review period. Audit Exhibit
20 ORS-2, “Total LNG” is a summary of the inventories of the various LNG locations,
21 including Pine Needle. Pine Needle is an LNG facility located in Guilford County, North
22 Carolina and is jointly owned by Piedmont, Transco and several other utilities/investors.
23 Piedmont’s ownership in this facility is 35%. Inventory is also stored at the Company’s

1 LNG facilities located near Charlotte, North Carolina and at LNG-NCNG located at Four
2 Oaks, North Carolina. Piedmont's records showed LNG inventory located in these
3 facilities at the beginning of the review period totaled 4,016,149 dekatherms at a total
4 cost of \$30,963,816 or a weighted average cost of \$7.7098 per dekatherm. As of the date
5 of the hearing in this docket however, due to adjustments made during the previous
6 review period, ORS had not been unable to express an opinion as to the accuracy of these
7 balances. During its most recent examination, though, ORS obtained from the individual
8 facility operators, the actual tank measurements as of the end of the review period and
9 adjusted the balances shown on the company perpetual inventory records to the actual
10 measurements as reported by the storage facilities. Those adjustments are shown as
11 "Adjustments to Tank Level" in Exhibit ORS-2. These adjustments included an increase
12 in the LNG of 25,022 dekatherms at a cost of \$188,862. The net inventory decrease
13 during the period, including these adjustments, injections, withdrawals and other related
14 activities resulted in a total ending inventory balance for the LNG facilities of 2,781,532
15 dekatherms at a total cost of \$20,900,628, or a weighted average cost of \$7.5141 per
16 dekatherm.

17 **EXHIBIT ORS – 3:** This exhibit contains the same information as Exhibit DFS-2 which
18 was filed as a part of ORS witness Sullivan's pre-filed testimony in this docket, and is
19 supplied to the Commission for information purposes only.

20 **CONCLUSION:** It is ORS' opinion that the balance, as adjusted, in Account # 253.04,
21 of (\$1,660,409), accurately reflects the under-collection at March 31, 2007. Additionally,
22 it is the opinion of the ORS that the inventory balances as reflected in Exhibit ORS-2,

- 1 including adjustment to tank levels, accurately reflect the Company's total inventories at
- 2 the end of the review period.

PIEDMONT NATURAL GAS COMPANY, INC.
ACCOUNT #253.04 ANALYSIS SUMMARY
FOR TWELVE MONTHS ENDED MARCH 31, 2007

Month	April	May	June	July	August	September	October	November	December	January	February	March	Total
Beginning Balance	(15,133,277)	(13,902,489)	(14,378,090)	(14,172,128)	(13,957,328)	(13,612,638)	(13,082,539)	(9,884,437)	(6,440,068)	(5,073,795)	(4,358,933)	(1,438,804)	
Commodity True-Up (B vs. F)	586,019	120,549	808,174	991,614	794,553	1,500,135	4,139,216	2,688,401	1,519,273	1,633,062	434,031	(452,800)	14,762,227
Demand True-Up	(230,931)	(926,943)	(983,460)	(1,074,701)	(1,077,236)	(1,025,284)	(995,974)	(140,017)	376,778	766,274	1,646,388	373,424	(3,291,682)
Negotiated Losses	(92,726)	(58,742)	(105,452)	(130,488)	(63,119)	(67,407)	(80,155)	(199,382)	(173,695)	(147,907)	(161,650)	(78,411)	(1,359,134)
Secondary Market Sharing	789,722	476,381	563,799	514,676	637,537	194,268	316,438	303,176	277,874	530,665	792,876	322,838	5,720,250
Benchmark Proration	0	0		(11,241)	0	0	0	0		233,277	0	0	222,036
WNA	9,178	553	547	68	(38)	(62)	(5)	392,701	(655,293)	(2,262,145)	243,522	(368,090)	(2,639,064)
Unaccounted For	0	0	0	0	0	0	0	485,254	0	0	0	0	485,254
SC Uncollectibles	0	0	0	0	0	0	0	(36,160)	(13,663)	(14,773)	(18,177)	(25,570)	(108,343)
Supplier Refunds	0	0	10,586	267	126,889	0	8,080	6,961	68,483	3,841	0	16,017	241,124
Other Adjustments	259,259	0	0	0	0	0	(99,990)	(9,090)	0	0	0	0	150,179
Hedging Activity Transfer	0	0	0	0	0	0	0	0	0	0	0	0	0
Ending Balance Before Interest	(13,812,756)	(14,290,691)	(14,083,896)	(13,881,933)	(13,538,742)	(13,010,988)	(9,794,929)	(6,392,593)	(5,040,311)	(4,331,501)	(1,421,943)	(1,651,396)	
Interest	(89,733)	(87,399)	(88,232)	(75,395)	(73,896)	(71,551)	(89,508)	(47,475)	(33,484)	(27,432)	(16,861)	(9,013)	(709,979)
Ending Balance	(13,902,489)	(14,378,090)	(14,172,128)	(13,957,328)	(13,612,638)	(13,082,539)	(9,884,437)	(6,440,068)	(5,073,795)	(4,358,933)	(1,438,804)	(1,660,409)	
Interest Rate	7.44%	7.44%	7.44%	6.45%	6.45%	6.45%	9.39%	7.00%	7.00%	7.00%	7.00%	7.00%	

Deferred Account #253.04 Under Collection as of 3/31/07	(1,660,409)
Net Cumulative Hedging Increase to the Cost of Gas as of 3/31/07	(3,491,414)
Total Under Collection as of 3/31/07	(5,151,823)

PIEDMONT NATURAL GAS COMPANY, INC.
STORAGE INVENTORY ACTIVITY
FOR TWELVE MONTHS ENDED MARCH 31, 2007

	Total Underground Injections					Total Underground Withdrawals				Total Underground Balance		
	Gross DTs	Used/Injected	Price	Commodity	Injection/Charge	W/D Charge	DTs	Price	Amount	DTs	Amount	Wtd. Cost
Beg. Bal.										8,462,437	66,809,961	\$ 7.8949
Apr-06	920,931	(4,645)	\$ 7.5247	\$ 6,929,772	\$ 14,261	\$ 1,904	(116,771)	\$ 8.3874	\$ (979,404)	9,261,952	72,776,493	7.8576
May-06	1,643,329	(24,415)	7.5340	12,380,832	31,247	388	(88,565)	8.4419	(747,656)	10,792,301	84,441,304	7.8242
Jun-06	567,922	(29,191)	6.1948	3,518,166	13,152	2,448	(240,861)	8.4689	(2,039,825)	11,090,171	85,935,245	7.7488
Jul-06	1,241,022	(24,099)	5.8801	7,297,335	23,169	7,206	(860,729)	7.8767	(6,779,733)	11,446,365	86,483,221	7.5555
Aug-06	1,951,047	(31,522)	7.2965	14,235,820	36,522	6,989	(640,594)	6.2601	(4,010,189)	12,725,296	96,752,363	7.6032
Sep-06	2,107,598	(38,245)	6.5868	13,882,372	35,504	335	(52,295)	8.2004	(428,840)	14,742,354	110,241,733	7.4779
Oct-06	1,479,522	(32,312)	4.4377	6,565,630	25,756	11,865	(897,272)	6.7278	(6,036,624)	15,292,292	110,808,361	7.2460
Nov-06	1,026,966	(26,017)	7.3252	7,522,700	19,395	8,221	(1,398,866)	7.4980	(10,488,731)	14,894,375	107,869,945	7.2423
Dec-06	2,073,616	(90,963)	8.5393	17,707,311	20,116	12,939	(911,726)	7.5069	(6,844,241)	15,965,302	118,766,071	7.4390
Jan-07	779,321	(10,976)	6.0285	4,698,098	7,589	43,366	(4,837,198)	7.2405	(35,023,687)	11,896,449	88,491,437	7.4385
Feb-07	329,042	(5,945)	7.1858	2,364,443	4,406	38,636	(4,695,733)	7.1441	(33,546,660)	7,523,813	57,352,262	7.6228
Mar-07	1,753,843	(26,495)	7.5962	13,322,548	38,125	7,023	(1,067,649)	7.5360	(8,045,762)	8,183,512	62,674,195	\$ 7.6586
	<u>15,874,159</u>	<u>(344,825)</u>	<u>6.9563</u>	<u>\$ 110,425,026</u>	<u>\$ 269,241</u>	<u>\$ 141,320</u>	<u>(15,808,259)</u>	<u>7.2729</u>	<u>\$ (114,971,352)</u>			

	Total LNG Injections					Total LNG Withdrawals				Adjustments To Tank Level		Total LNG Balance		
	Gross DTs	Used/Injected	Price	Commodity	Injection/Charge	W/D Chg/Exp Def	DTs	Price	Amount	DTs	Amount	DTs	Amount	Wtd. Cost
Beg. Bal.												4,016,149	\$ 30,963,816	\$ 7.7098
Apr-06	36,265	0	\$ 7.3684	\$ 267,215	\$ 0	\$ 9,537	(29,571)	\$ 7.4619	\$ (220,656)	0	\$ 0	4,022,843	31,019,912	7.7109
May-06	26,032	0	7.5774	197,255	0	78,588	(24,797)	7.4825	(185,543)	0	0	4,024,078	31,110,212	7.7310
Jun-06	20,309	0	6.0753	123,383	0	8,662	(26,417)	7.4812	(197,631)	0	0	4,017,970	31,044,626	7.7264
Jul-06	218,758	(380)	6.2000	1,356,295	0	21,487	(23,747)	7.4227	(176,267)	0	0	4,212,601	32,246,141	7.6547
Aug-06	293,219	(957)	7.1799	2,105,273	0	121,847	(281,239)	7.7425	(2,177,484)	0	0	4,223,624	32,295,777	7.6465
Sep-06	419,621	(833)	6.5267	2,738,728	0	10,115	(41,683)	7.3227	(305,234)	0	0	4,600,729	34,739,386	7.5508
Oct-06	111,537	(183)	4.4109	491,978	0	100,169	(79,469)	7.5257	(598,060)	0	0	4,632,614	34,733,472	7.4976
Nov-06	13,169	0	7.6363	100,562	0	75,185	(165,105)	7.5674	(1,249,423)	0	0	4,480,678	33,659,796	7.5122
Dec-06	124,190	0	0.0000	1,110,743	0	9,922	(157,496)	7.6229	(1,200,577)	0	0	4,447,372	33,579,885	7.5505
Jan-07	85,827	0	6.3628	546,102	0	37,281	(592,435)	7.5722	(4,486,024)	0	0	3,940,764	29,677,244	7.5308
Feb-07	0	0	0.0000	0	0	0	(1,231,642)	7.6345	(9,402,944)	0	0	2,709,122	20,274,300	7.4837
Mar-07	158,028	0	7.7821	1,229,785	0	48,758	(110,640)	7.6019	(841,076)	25,022	\$ 188,862	2,781,532	\$ 20,900,628	\$ 7.5141
	<u>1,506,955</u>	<u>(2,353)</u>	<u>6.8133</u>	<u>\$ 10,267,319</u>	<u>\$ 0</u>	<u>\$ 521,550</u>	<u>(2,764,241)</u>	<u>7.6118</u>	<u>\$ (21,040,919)</u>	<u>25,022</u>	<u>\$ 188,862</u>			

**PIEDMONT NATURAL GAS COMPANY, INC.
RISK MANAGEMENT - HEDGING PROGRAM
GAIN/(LOSS) RECOGNIZED AND OTHER EXPENSES
FOR TWELVE MONTHS ENDED MARCH 31, 2007**

Month	Type of Contract	No. of Contracts	Gain or (Loss)	Trading Fees	Gain or (Loss) Recognized	Interest	RMI Fee	Real-Time Pricing Fee	Net Gain or (Loss)
Apr-06	Call Options/Futures	12	\$ (359,698)	\$ (240)	\$ (359,938)	\$ 9,251	\$ (395)	\$ (60)	\$ (351,142)
May-06	Call Options	329	(1,045,343)	(6,580)	(1,051,923)	2,874	(2,409)	(60)	(1,051,518)
Jun-06	Call Options	308	(141,180)	(6,160)	(147,340)	(48)	(395)	(60)	(147,843)
Jul-06	Call Options	157	594,477	(3,140)	591,337	1,552	(395)	(60)	592,434
Aug-06	Call Options/Futures	130	(1,219,840)	(3,040)	(1,222,880)	746	(395)	(60)	(1,222,589)
Sep-06	Call Options/Futures	761	(5,469,904)	(15,220)	(5,485,124)	(31,134)	(395)	(60)	(5,516,713)
Oct-06	Call Options/Futures	189	2,096,120	(3,780)	2,092,340	(39,476)	(395)	(60)	2,052,409
Nov-06	Call Options/Futures	170	2,363,878	(2,635)	2,361,243	(11,800)	(395)	(60)	2,348,988
Dec-06	Call Options	338	(3,418,671)	(5,239)	(3,423,910)	(19,019)	(395)	(60)	(3,443,384)
Jan-07	Call Options	520	1,855,964	(8,060)	1,847,904	(22,601)	(395)	(60)	1,824,848
Feb-07	Call Options	40	238,948	(620)	238,328	(15,467)	(395)	(60)	222,406
Mar-07	Call Options	101	65,126	(1,566)	63,560	(20,368)	(395)	(60)	42,737
		<u>3,055</u>	<u>\$ (4,440,123)</u>	<u>\$ (56,280)</u>	<u>\$ (4,496,403)</u>	<u>\$ (145,490)</u>	<u>\$ (6,754)</u>	<u>\$ (720)</u>	<u>\$ (4,649,367)</u>
					Increase to the Cost of Gas (Apr 04 to Mar 05)			\$	(598,053)
					Decrease to the Cost of Gas (Apr 05 to Mar 06)				1,756,006
					Increase to the Cost of Gas (Apr 06 to Mar 07)				<u>(4,649,367)</u>
					Cumulative Increase to the Cost of Gas (Apr 04 to Mar 07)			\$	<u>(3,491,414)</u>